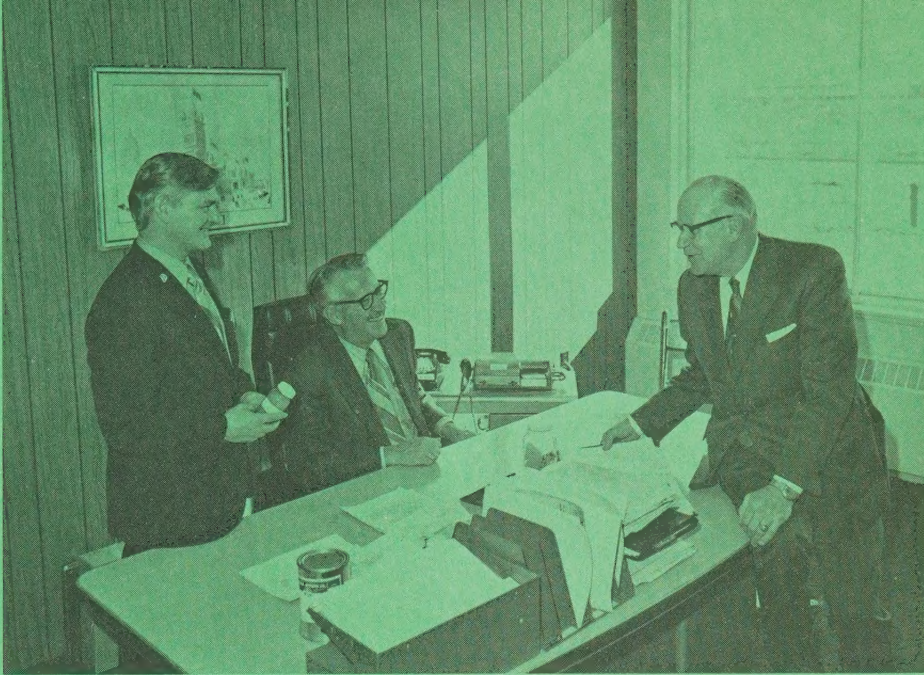


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INDUSTRIAL ADHESIVES LIMITED

AR10



ANNUAL REPORT 1971



Executive Meeting in Montreal Office



Toronto Sales Conference



General and Accounting Office, Toronto

New Montreal Plant in Pointe Claire



Industrial Adhesives Limited

90 TYCOS DRIVE, TORONTO 19, ONTARIO
255 LABROSSE AVENUE, POINTE CLAIRE 730, P.Q.

DIRECTORS

D. L. Adam, A. R. Bennett
R. H. Dameron, R. W. Finlayson, C. L. Kalthoff
C. P. Keeley, H. Sutherland

OFFICERS

C. L. Kalthoff
Chairman and President

D. L. Adam
Vice-President and Technical Director

A. R. Bennett
Vice-President, Sales

R. H. Dameron
Vice-President, Manufacturing

H. H. Frazer
Vice-President, Eastern Division

R. L. S. Snell
Secretary-Treasurer

TRANSFER AGENTS AND REGISTRARS

National Trust Company, Limited
Toronto, Montreal

SOLICITORS

Fraser & Beatty

BANKERS

The Toronto-Dominion Bank, Toronto

AUDITORS

Dunwoody & Company

Report to the Shareholders:

On behalf of the Board of Directors, I am pleased to present our annual report for your Company. Nineteen seventy-one was the 25th year of operation for the Company with new highs being achieved in revenue and net earnings.

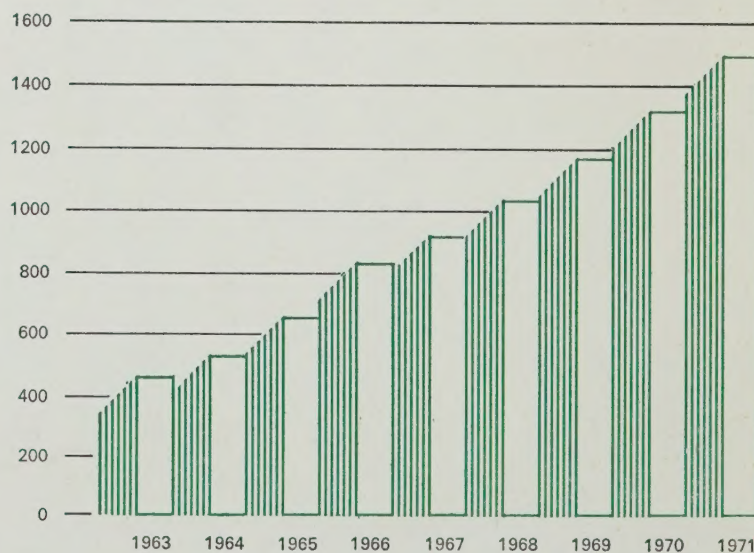
The growth indicated in our quarterly reports continued throughout 1971. Sales showed a 10.33% increase over 1970. Net earnings rose to \$386,980 or \$.97 per share representing an increase of 14.18% over last year.

Despite major capital outlays during the year, our working capital position was maintained at \$753,802 at year-end compared with \$775,774 at the end of 1970; the current ratio was 3.19 to 1 at the end of both fiscal periods. Shareholders' equity increased through retained earnings by \$182,980 to \$1,488,240 at the end of the current year compared with an increase of \$146,913 to \$1,305,260 at the end of last year.

The new Montreal plant, which commenced operations during 1971, was wholly financed by retained earnings and no long-term debt obligations were incurred. The new plant is two and one-half times the size of the old plant. As anticipated, it has begun to generate significant cost savings, particularly in the areas of material handling, purchasing and trucking. Our batteries of bulk storage tanks are operating in both plants, permitting efficient storage and transportation of raw materials and finished goods.

Plastisol sales continue to increase providing a significant contribution to earnings. Our Research and Development Laboratory has been working on a new basic material which was field tested and shows very good potential. It

Shareholders' Equity IN THOUSANDS OF DOLLARS



should prove very satisfactory to our customers as it will act to reduce their production costs.

Our efforts to provide products to the automotive industry are returning more favourable results and we look forward to even better accomplishments in the near future. In automotive assemblies involving metal hinges and channels holding glass panels, adhesive sealants are now being used extensively. The process is faster than previous methods and the danger of glass breakage has been eliminated.

Adhesive sealants have been successfully used in a number of new applications. Problems with seals on propeller shafts of outboard motors have been overcome with adhesive sealants. Treatment of the seals with a sealant permits a better fit for the seals, eliminates distortion and fills the joint to eliminate leaks. Another new area of use for adhesives is the machine shop. One shop uses a fast-setting adhesive to bond tools when setting up experimental jigs.

Until now, most adhesives and sealants have been applied by hand. It is obvious that to be most widely used, adhesives must be capable of machine application. One machine application is used by a major automobile manufacturer to apply an adhesive sealant to cylinder head castings. Due to the mechanization of the adhesive sealant application process, the line moves at an average speed of 200 heads per hour.

We are planning more new equipment for producing hot melts which, as anticipated, are constantly increasing their usefulness in many different industries. For example, hot melts are used in carpet splicing tapes, laminations, carton

and case closures, bookbinding, bottle labelling, wood gluing and heat seal coatings.

To keep up with the demands made on our Laboratories, we have added another section to their facilities with additional special scientific apparatus and personnel which will complement our present staff. We have also increased our sales force in Toronto and Montreal.

Another quarterly dividend of 15¢ on common shares, being the second dividend at the increased rate, was declared by the Board of Directors payable on January 31, 1972 to Shareholders of record January 7, 1972. This recent increase is our third increase in the dividend rate since 1968.

Our growth in earnings and expansion of facilities this year were possible because we have developed management and staff of exceptionally high calibre. The emphasis placed on continually recruiting excellent personnel makes it possible for us to plan confidently for further expansion in the future. Our key executives who have responsible positions have developed skills, through experience, that enable them to perform top level responsibilities.

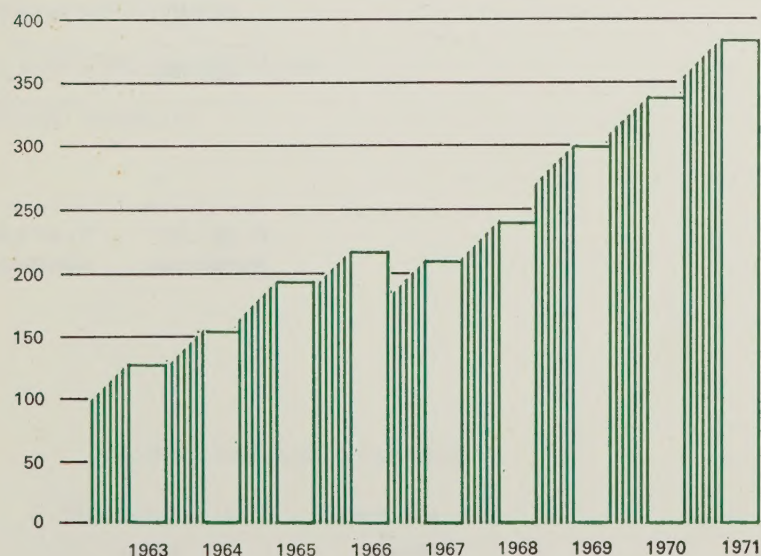
On behalf of the Directors and Officers I would like to express sincere thanks and appreciation to all our employees for their harmonious loyalty, efforts and support; also to our valued customers for their continuing patronage and our Shareholders for their confidence in our Company.



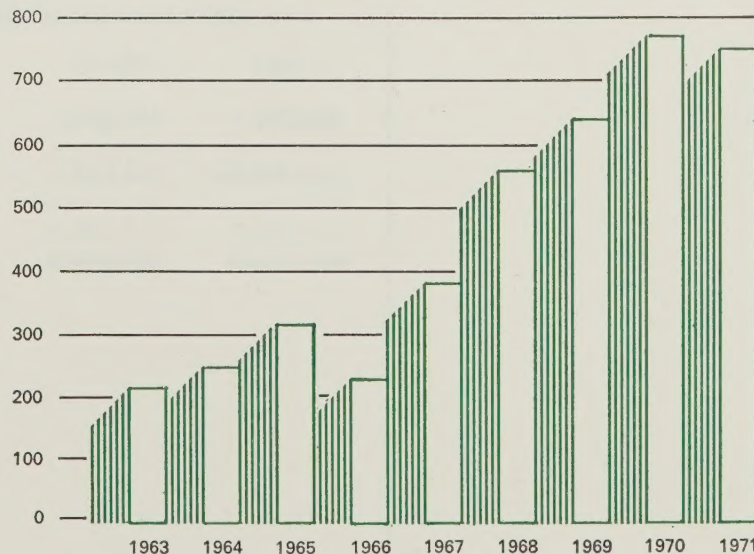
Chairman and President

December 22, 1971

Profit IN THOUSANDS OF DOLLARS



Working Capital IN THOUSANDS OF DOLLARS



Industrial Adhesives Limited

Consolidated Balance Sheet

as at 31 October 1971

ASSETS

	1971	1970
CURRENT		
Cash and short term bank deposits - - - - -	\$ 94,766	\$ 117,393
Accounts receivable - - - - -	608,583	612,483
Inventories, at lower of cost and net realizable value:		
Raw materials - - - - -	223,193	221,884
Finished goods - - - - -	103,503	110,092
Containers - - - - -	46,229	44,344
	372,925	376,320
Prepaid expenses - - - - -	21,745	23,474
TOTAL CURRENT ASSETS - - - - -	1,098,019	1,129,670
INVESTMENTS IN MARKETABLE SECURITIES, at cost		
(market value—1971—\$111,206; 1970—\$81,429) - - - - -	127,457	102,638
FIXED		
Land, buildings, plant and equipment, at cost - - - - -	1,117,358	889,069
Less accumulated depreciation - - - - -	491,578	443,772
	625,780	445,297
OTHER		
Formulae - - - - -	1	1
	<u>\$1,851,257</u>	<u>\$1,677,606</u>

Approved on behalf of the Board:

C. L. KALTHOFF
Director

A. R. BENNETT
Director

LIABILITIES

	1971	1970
CURRENT		
Accounts payable and accrued liabilities - - - - -	\$ 191,211	\$ 203,249
Corporation income, sales and other taxes - - - - -	73,186	75,197
Liability for containers in customers' hands - - - - -	79,820	75,450
TOTAL CURRENT LIABILITIES - - - - -	344,217	353,896
DEFERRED INCOME TAXES - - - - -	18,800	18,450
TOTAL LIABILITIES - - - - -	363,017	372,346

SHAREHOLDERS' EQUITY

CAPITAL		
Authorized		
200,000 5% non-cumulative preference shares of par value \$1.00 each, redeemable at \$1.20—\$200,000		
1,000,000 Common shares of no par value, aggregate consideration not to exceed \$1,000,000		
Issued and fully paid		
400,000 Common shares - - - - -	144,311	144,311
EARNED SURPLUS - - - - -	1,343,929	1,160,949
	1,488,240	1,305,260
	\$1,851,257	\$1,677,606

Consolidated Statement of Profit and Loss

for the year ended 31 October 1971

	1971	1970
GROSS OPERATING REVENUE - - - - -	\$3,405,851	\$3,086,861
PROFIT FOR THE YEAR, before accounting for the under-noted items - - -	\$1,007,031	\$ 908,901
Income from investments - - - - -	9,479	18,705
	1,016,510	927,606
Depreciation - - - - -	53,271	45,590
Remuneration of directors and senior officers - - - - -	196,019	187,778
	249,290	233,368
PROFIT FOR THE YEAR BEFORE PROVISION FOR CORPORATION INCOME TAXES - - - - -	767,220	694,238
Provision for corporation income taxes - - - - -	380,240	355,325
NET PROFIT FOR THE YEAR (Per share: 1971—97¢; 1970—85¢) - - - - -	\$ 386,980	\$ 338,913

Notes to Consolidated Financial Statements

as at 31 October 1971

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Industrial Adhesives Limited and those of its wholly-owned subsidiary, Industrial Adhesives (Eastern) Limited.

2. DEPRECIATION POLICY

Depreciation has been calculated on the declining balance method at rates normally permitted for income tax purposes and computed, for the new building, from the date of occupancy.

3. REMUNERATION OF DIRECTORS AND OFFICERS

Information pursuant to Section 122.2(1) of the Canada Corporations Act for the year ended 31 October 1971.

Number of directors - - - - -	7
Aggregate remuneration as directors - - - - -	\$ 6,000
Number of officers - - - - -	6
Aggregate remuneration as officers - - - - -	\$190,019
Number of officers who are directors - - - - -	4

Consolidated Statement of Earned Surplus

for the year ended 31 October 1971

	1971	1970
BALANCE AT BEGINNING OF YEAR - - - - -	\$1,160,949	\$1,014,036
Net profit for the year - - - - -	386,980	338,913
	1,547,929	1,352,949
Dividends - - - - -	204,000	192,000
BALANCE AT END OF YEAR - - - - -	\$1,343,929	\$1,160,949

Consolidated Statement of Source and Application of Funds

for the year ended 31 October 1971

	1971	1970
SOURCE OF FUNDS		
Net profit for the year - - - - -	\$ 386,980	\$ 338,913
Add depreciation, a non-cash outlay - - - - -	53,271	45,590
FUNDS PROVIDED FROM OPERATIONS - - - - -	440,251	384,503
Deferred income taxes - - - - -	350	1,962
TOTAL SOURCE OF FUNDS - - - - -	440,601	386,465
APPLICATION OF FUNDS		
Net additions to fixed assets - - - - -	233,754	67,606
Purchase of investments—net - - - - -	24,819	—
Dividends - - - - -	204,000	192,000
TOTAL APPLICATION OF FUNDS - - - - -	462,573	259,606
INCREASE (DECREASE) IN WORKING CAPITAL - - - - -	(21,972)	126,859
Working capital at beginning of year - - - - -	775,774	648,915
WORKING CAPITAL AT END OF YEAR - - - - -	\$ 753,802	\$ 775,774

Auditors' Report

To the Shareholders of
INDUSTRIAL ADHESIVES LIMITED

We have examined the consolidated balance sheet of Industrial Adhesives Limited as at 31 October 1971 and the consolidated statements of earned surplus, profit and loss and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at 31 October 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TORONTO, Ontario
29 November 1971

DUNWOODY & COMPANY
CHARTERED ACCOUNTANTS

Nine-Year Comparison

OPERATIONS:

	1971	1970	1969	1968	1967	1966	1965	1964	1963
Profit before depreciation and income taxes - - - -	\$ 820,491	\$ 739,828	\$ 662,206	\$ 523,398	\$ 445,340	\$ 447,468	\$ 402,716	\$ 324,785	\$ 251,745
Depreciation - - - - -	53,271	45,590	47,946	39,388	43,690	25,264	28,225	32,139	27,271
Income taxes - - - - -	380,240	355,325	314,250	242,725	190,700	207,200	182,300	139,000	97,413
Profit - - - - -	386,980	338,913	300,010	241,285	210,950	215,004	192,191	153,646	127,061
Profit per share - - - - -	97¢	85¢	75¢	60¢	53¢	54¢	51¢	41¢	34¢
* Shares outstanding at year-end - - - - -	400,000	400,000	400,000	400,000	400,000	400,000	375,120	375,120	375,120

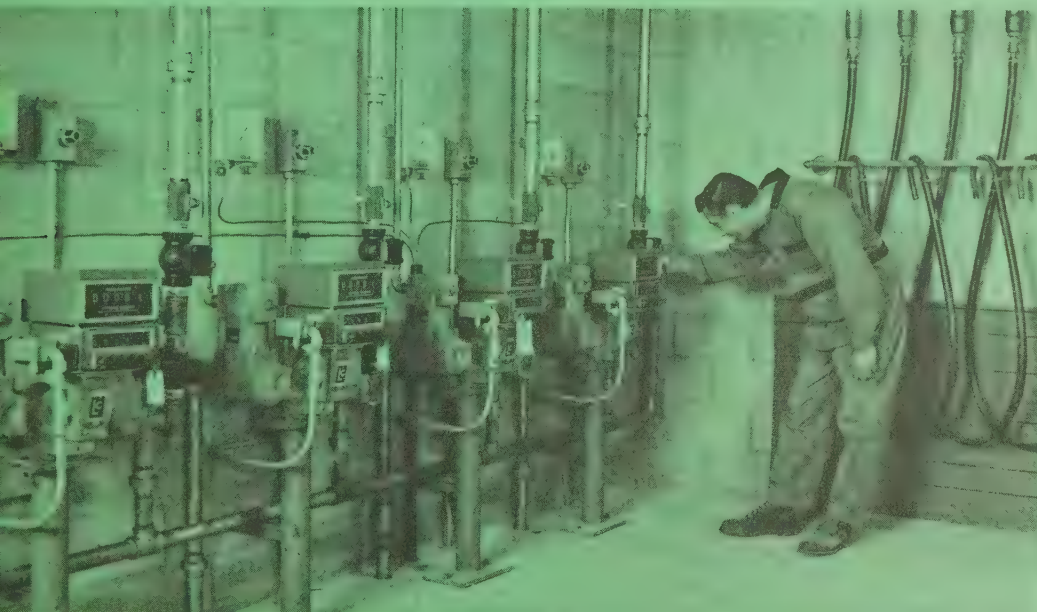
* after giving effect to a 2 for 1 sub-division of shares by supplementary letters patent dated October 21, 1965.

FINANCIAL:

Working capital - - - -	\$ 753,802	\$ 775,774	\$ 648,915	\$ 564,722	\$ 383,137	\$ 236,759	\$ 321,464	\$ 252,541	\$ 216,592
Investments in marketable securities (market value) -	111,206	81,429	94,664	55,339	49,750	126,713	70,538	49,112	25,375
Net investment in land, buildings, plant and equipment	625,780	445,297	423,281	409,932	435,693	397,015	252,716	268,612	262,494
Shareholders' equity - - -	1,488,240	1,305,260	1,158,347	1,018,337	901,054	814,104	635,370	526,494	456,163
Shareholders' equity per share - - - - -	\$3.72	\$3.26	\$2.90	\$2.55	\$2.25	\$2.04	\$1.69	\$1.40	\$1.22



Purchasing Office, Toronto

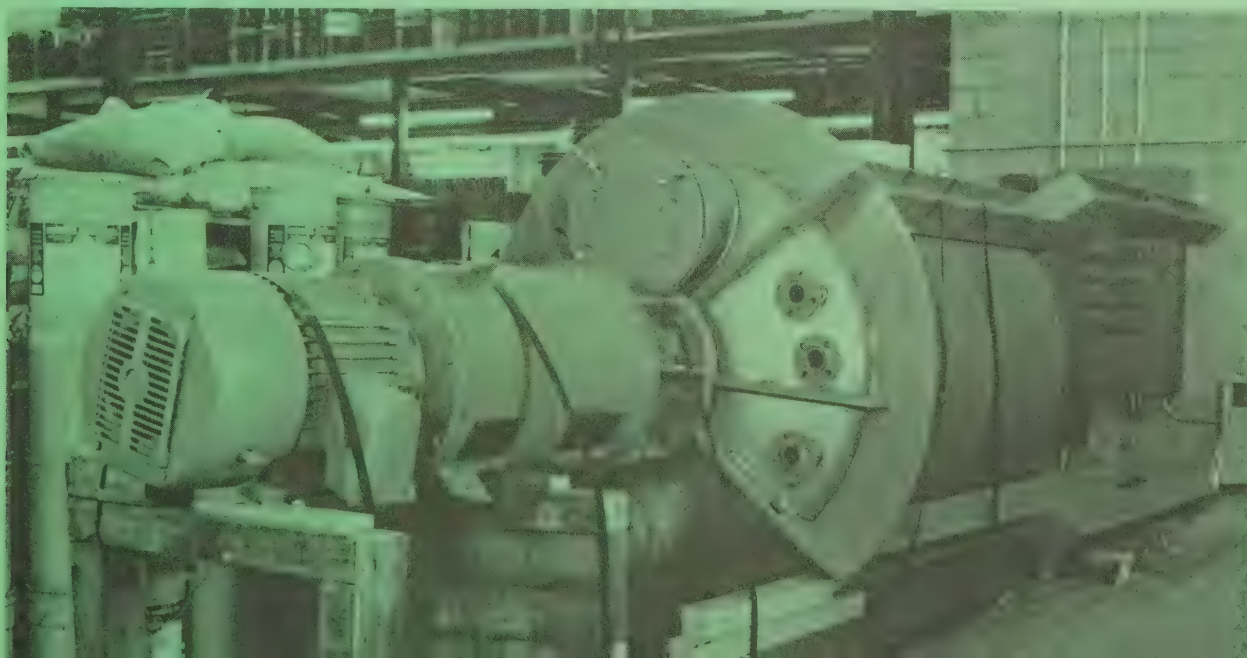


Pumping Controls for Bulk Storage Tanks, Montreal



Montreal General Office

New Modern High-Speed Processing Equipment awaiting Installation in Montreal



Corp report

INDUSTRIAL ADHESIVES LIMITED

INTERIM REPORT
TO SHAREHOLDERS

FOR THE SIX MONTHS ENDED
APRIL 30, 1971

May 28th, 1971

We are proud once again to report another period of continued growth for your Company. For the first six months of the current fiscal year our sales have increased 12.6% and our earnings 16.1% over the comparable period of last year. We anticipate the continuation of this trend for the latter half of the year which is traditionally a period of greater volume than the first half.

Our new Montreal Plant is now virtually complete and operating. Despite the drain on funds created by financing this project internally, our working capital has decreased by only \$18,637 over the twelve months ended April 30, 1971. Also, we have been able to maintain our current ratio at a respectable level of 2.90 to 1 compared to 2.94 to 1 at April 30, 1970.

We fully expect to create numerous efficiencies and economies by this new Plant which is two and one-half times larger than our old one. As new sales are generated this division should make even greater contributions to our future earnings.

Respectfully submitted.

C. L. Kalthoff,
President

INDUSTRIAL ADHESIVES LIMITED

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

(UNAUDITED)

	Six Months Ended	
	April 30, 1971	April 30, 1970
Profit before Income Taxes	\$327,350	\$280,750
Income Taxes	168,000	143,500
Net Profit	<u>\$159,350</u>	<u>\$137,250</u> +
Common Shares Outstanding	400,000	400,000
Earnings per Common Share	39.8 cents	34.3 cents *
Dividends paid per Common Share	24 cents	24 cents

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

(UNAUDITED)

	Six Months Ended	
	April 30, 1971	April 30, 1970
Source of Funds		
Consolidated Net Profit	\$159,350	\$137,250
Add: Depreciation, a non-cash outlay	23,148	21,977
Total Source of Funds, provided from Operations	<u>\$182,498</u>	<u>\$159,227</u>
Application of Funds		
Net Additions to Fixed Assets	\$190,880	\$ 25,238
Purchase of Investments	3,125	—
Dividends	<u>96,000</u>	<u>96,000</u>
Total Application of Funds	<u>\$290,005</u>	<u>\$121,238</u>
Increase (Decrease) in Working Capital	(\$107,507)	\$ 37,989
Working Capital at Beginning of Period	775,774	648,915
Working Capital at End of Period	<u>\$668,267</u>	<u>\$686,904</u>

(For dividend declaration see over)

AR10

DIVIDEND NOTICE

A dividend of 12 cents on Common Shares was declared May 28, 1971 payable July 30, 1971 to Shareholders of record July 9, 1971.



INDUSTRIAL ADHESIVES LIMITED

Head Office and Toronto Plant
90 Tycos Drive, Toronto 19, Ontario

Montreal Plant
255 Labrosse Ave., Pointe Claire 730, P.Q.